

From Information to Insight: It's the Stories, Not the Numbers

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The rules of the investment game have changed. The SEC's new Regulation FD (Fair Disclosure") requires simultaneous release of information to all investors. This change in the rules codifies the obvious: information is ubiquitous, abundant and worthless.

Thirty years ago, information had great value for investment analysts. Information was extensively sought after and researched, it was acquired expensively, not widely disseminated and useful in making determinations about which stocks to buy and sell. Today, information has switched from being the scarce resource to being the abundant resource - available everywhere and always, for free (or close to it) and widely available on the web. The SEC fair disclosure provisions have eliminated the last modicum of value of information.

The value previously brought to investment decisions by analysts and portfolio managers rested, in part, on their location in the information flow. Now, their great value must come from strategic insight, from their capacity to anticipate a more accurate future based on the same information held by everyone.

Now the challenge for analysts is no longer to obtain superior information, nor to obtain it quicker than the competition. That has become an impossible task. Rather, the challenge is to use information to make superior judgments. The engrained habits of private briefings, guidance about earnings and signaling future events are no longer allowed. Shareholder valuations will respond not merely to changes in "information," but to changes in investors' understanding about the opportunities in the marketplace and the company's strategic vision with regards to those opportunities.

By "strategic vision" we mean the stories or narratives of the future that provide the background from which company leaders develop tactics for the present and plans for the future. It is these narratives and the strategies developed from them that, if fulfilled, will enable the company to overtake the competition and gain power.

In short, it is the stories, not the numbers that are important.

'But We Like the Way it Is'

The FD regulations will actually permit companies to disclose more not less. Companies that understand this have a huge opportunity to excel beyond their competition and lower their cost of capital. Instead of disclosing "information," which by definition is a lagging indicator, companies now can fill the information vacuum disclosing their thinking, their

business models, the world they see and how they plan to move in that world to gain power over their competitors.

Companies can take the lead on generating new metrics for measuring their progress. In short, they can define the criteria for how they will be assessed by Wall Street. By sharing their business vision I don't mean they must share their detailed plans, forecasts and budgets. As predictors of the future, these are nearly always wrong anyway. They do, however, alert management as to when they need to intervene and take different actions, and they generate the framework for convening the right discussions.

Rather, I'm talking about sharing the business vision, the story and assumptions that are usually kept in the background: the story that includes their thinking about future directions of the marketplace; management's philosophy around outsourcing; the company's strategies for differentiating their products; their characterizations of the marketplace, competitors, customers and suppliers; and their fundamental competitive advantage. These, the stuff of fundamental due diligence are far more valuable to understand than financials, which obviously, are a lagging indicator and not a predictor of future prosperity.

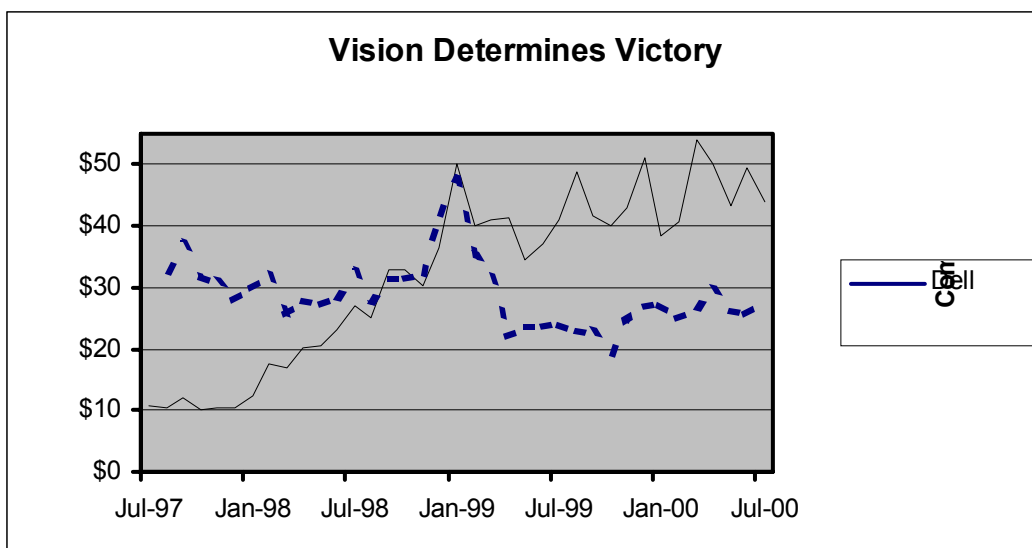
Leaders Generate a Strategic Vision

Leaders lead by generating a strategic vision. They direct the company into a future that would otherwise not exist. A good example of this is Michael Dell. Beginning in 1984, Dell Computers turned the PC industry on its head with a strategic vision, "Be Direct." This vision, not the financials, continues to guide the company.

From his dorm room at the University of Austin, Dell invented a new business model for the purchase and distribution of personal computers: bypass the middleman, who adds little value to the products, and sell custom-built PCs directly to end-users. In the old model, every purchase was either a compromise or a wait time of weeks.

Dell's new order and distribution model, "Be Direct," was stunningly innovative and its apparent competitors are finding it very hard to copy or block. Dell understands that inventory is what you need when you don't know what you are doing. Dell strategy has been to disrupt the distribution system of the PC industry, not the PC manufacturing business but the PC selling business. Orders can be placed online (50% of Dell's revenue comes from online orders) or over the telephone. Dell does not make the machines until the order is placed. In most cases a machine is delivered within a week with simple assembly instructions. Dell doesn't need inventory because it knows the specifications of each order. The company is paid before it purchases parts and thus the channel is not filled with the wrong machines or parts.

The Dell model has been very successful. For example, although Dell and Compaq are in exactly the same industry, the companies have very different business visions. The stock market has rendered its verdict; Dell is continuing to gain power and Compaq never really gets cheap enough.



In fact, the Dell business vision is so powerful that Ford Motor has hired Michael Dell as an advisor. Ford has announced that it is launching “FordDirect.com” – a program that will allow customers to select and purchase new cars on line, as well as identify from which local dealer they would like to pick up the car. Ford has a vision that cars will be bought, then assembled, rather than produced and forced into the channel, leaving customers to choose only from what’s available.

“Insight” is much more powerful for choosing Ford over General Motors, for example, than any of the traditional aspects of guidance, lagging financial indicators or four-quarter forward-looking projections.

The Story Differentiates the Company

It’s the story, not the numbers that differentiates one company from another. Regulation FD encourages corporate leaders and investors to focus on what matters, not what’s irrelevant, and the transition will be very difficult.

Thinking must be hard work, which is why we see so little of it. Occupying a valuable position in the information flow has been much easier than thinking, but the thinkers are gaining a competitive advantage. The edge will go to the executives and investors who can invent effective stories and visions, those who can articulate a clear and coherent interpretation about the present and the future.

Transforming Investor Relations

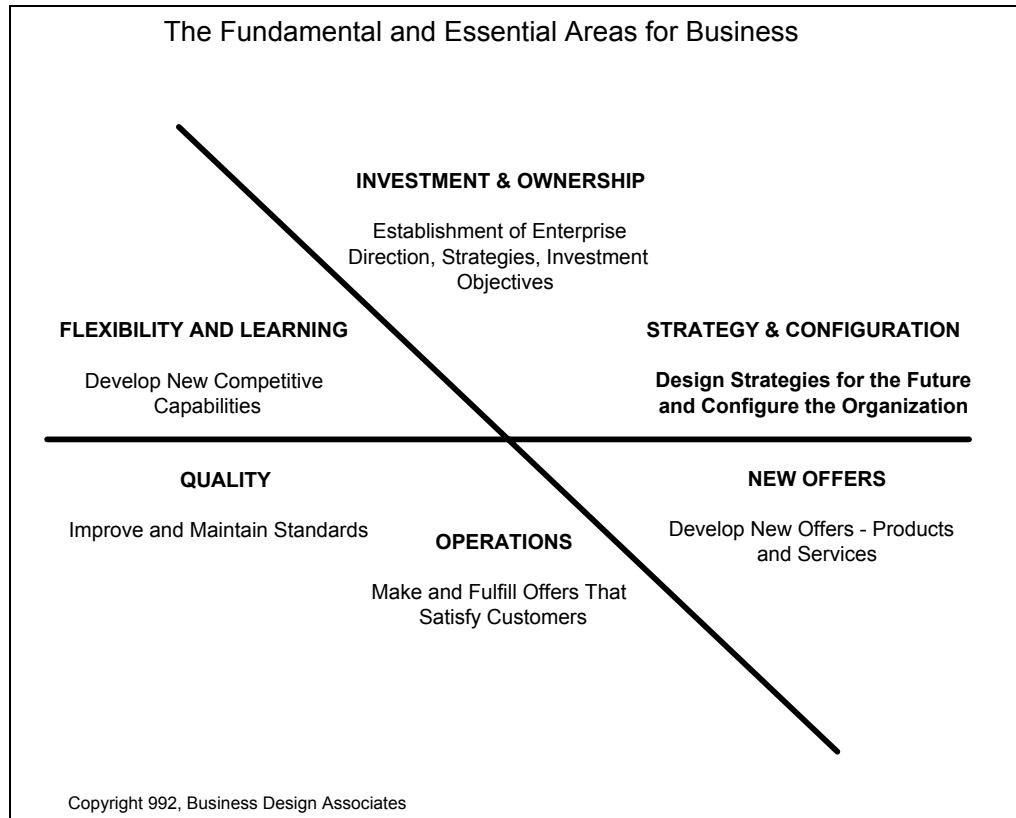
With the new SEC Regulation FD and the criticality of sharing a company’s strategic vision, the transformation of investor relations from information conduit to valued partner is complete. Although the old notions of “guiding” the Street with “selective disclosure” will no longer work nor be allowed, the really critical issues to watch remain within the

scope of what executives and IR professionals are allowed discuss: the company's vision of the future; the fundamental strategy; key competitive advantages in the areas of skill, location and structure; the business models; weaknesses of the competition; insights that will produce a competitive advantage, barriers to entry, barriers to exit, etc.

In short, management is not only free to discuss but *must* have investors understand the company's fundamentals and strategic direction. Furthermore, without this research-intensive, business-savvy approach, investors will be ill equipped to identify the few companies in any industry that will see the future clearly, move successfully and produce wealth for shareholders.

Investor relations professionals must work with investors and executives to define, understand and build a clear and compelling story in each of the following fundamental and essential areas of business.

- ◆ *Investment and Ownership*: What direction are the executives declaring for the company, what are the objectives with regards to strategic alliances, investment objectives and raise capital?
- ◆ *Strategy and Configuration*: What are the strategies, business models, and resources that will be required for positioning the company in its industry and in the world?
- ◆ *New Offers*: What new offers will the company be making to the marketplace? How will these enhance the company's position and power?
- ◆ *Operations*: What unique capabilities does the company have to assemble and deliver products and services in such a way that will that satisfy customers?
- ◆ *Quality*: How will the company maintain and improve standards for quality and performance?
- ◆ *Flexibility and Learning*: What is the company doing to developing new competitive capabilities and new ways of seeing the world?



It really is “that vision thing.” Executives, analysts, and money managers who can think conceptually, communicate clearly, and produce a clear understanding will gain a substantial advantage over those who rely on disclosure of information and guidance. It’s time to learn again how to think about and talk about the future.

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